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# SKLAR MANUFACTURING LIMITED

## 1978 Annual Report

Sklar-Peppler
Meridian
Fitton Parker
CFM

# SKLAR
Manufacturing Limited

# 1978 Annual Report

## Directors

*DOUGLAS R. ANNETT
Don Mills, Ontario
President, Annett Partners Limited

*,**ALLAN L. BEATTIE, Q.C.
Toronto, Ontario
Managing Partner, Osler, Hoskin & Harcourt

**PAUL A. BIENVENU
Montreal, Quebec
President, Howard Bienvenu Inc.

PAUL F. BLACK
Toronto, Ontario
President, Black, Galper & Heessels Limited

EDWIN T. COHEN
Willowdale, Ontario
Managing Director, ECO Markets Research and Advisory Associates Ltd.

JOSEPH SKLAR
Toronto, Ontario
Senior Vice-President,
Sklar Manufacturing Limited

*,**LOUIS SKLAR
Oshawa, Ontario
President,
Sklar Manufacturing Limited

SAMUEL SKLAR
Toronto, Ontario
Chairman of the Board,
Sklar Manufacturing Limited

JACK B. WHITELY
Oakville, Ontario
President, Commerce Capital Corporation Limited

*Member of Executive Committee
**Member of Audit Committee

## Officers

SAMUEL SKLAR
Chairman of the Board

LOUIS SKLAR, B.A., Sc.,
President

JOSEPH SKLAR
Senior Vice-President

R.E.G. WILSON, B. Comm., C.A.,
Vice-President, Finance
and Secretary-Treasurer

J.E.R. DEMERS, R.I.A.,
Assistant Treasurer

## Head Office

617 Victoria Street East,
Whitby, Ontario L1N 5S7
Telephone 416/668-3315

## Plants

Whitby, Ontario
Weston, Ontario
Hanover, Ontario
Southampton, Ontario

## Showrooms

Downsview, Ontario
Montreal, Quebec

## Transfer Agent and Registrar

Montreal Trust Company
Toronto and Montreal

## Bankers

The Royal Bank of Canada

## Auditors

Soberman, Isenbaum & Colomby

## Stock Listing

Toronto Stock Exchange
(SKM)

# President's Report to Shareholders

Net earnings for the year ended December 31, 1978 were $1,879,000, compared to a loss of $4,434,000 for the previous year. Although these earnings are not yet at an acceptable level, they do represent a significant movement forward in the Company's recovery process.

Those who have followed the course of the Company over the the past few years have been made aware of the fact that severe difficulties have been experienced as a result of a costly expansion program, undertaken in anticipation of a strong growth in demand for home furnishings which did not materialize. In my last Annual Report to Shareholders (for the year ended December 31, 1977), I outlined the action being taken by Management to deal with these difficulties. Briefly, this action consisted of; the consolidation of the Company's facilities, a substantial strengthening of the Company's marketing efforts, improved manufacturing and administrative efficiencies at all divisions, and the negotiation of a revised, less demanding debt structure with our lenders. The results of operations for 1978, as set out in this report, reflect the substantial improvements that have been derived from this corrective action. As a consequence of the progress made in 1978, the Company is now somewhat ahead of the recovery schedule which was established during the second half of 1977.

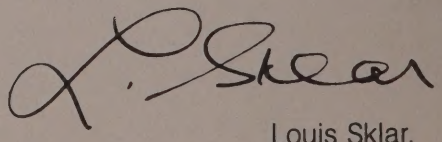
The interim loan agreement referred to in previous reports has been working satisfactorily. At the present time, there are adequate funds available to enable the Company to operate effectively.

In looking to the future, although the Company has good order backlogs for most product categories, it is Management's view that retail sales for home furnishings for the first half of this year will not be buoyant. This could result in some slowing down of the Company's rate of recovery during this period. However, at present, we have reason to believe that for the year 1979 as a whole, improved performance over the 1978 levels can be anticipated.

As we attempt to project our planning beyond 1979, we must acknowledge that there are many uncertainties with regard to the direction of the Canadian economy. Therefore, we are proceeding on the assumption that any growth in the demand for home furnishings over the next few years will be modest at best. Nevertheless, we believe that despite difficult market conditions, the Company will continue to experience some growth. This growth will be carefully planned and cautiously implemented. The principal thrust of Management's efforts will be directed towards margin improvement rather than the resumption of rapid expansion.

It is important that we do not lose sight of the fact that the Company continues to be the largest manufacturer of upholstered and wood furniture in Canada. Furthermore, although the program of consolidation did eliminate a considerable amount of excess production capacity, adequate reserve capacity remains for the level of growth anticipated over the next few years.

Some problems remain to be resolved before a complete recovery can be claimed. However, in view of the progress made over the past 18 months, Management now believes that, barring a severe drop in demand for home furnishings, the shareholders can look to the future with a considerable measure of optimism.



Louis Sklar,
President.

March 9, 1979

# Consolidated Eight-Year Summary

| | **1978** | 1977 | 1976 | 1975 | 1974 | 1973 | 1972 | 1971 |
|---|---|---|---|---|---|---|---|---|
| **OPERATIONS** | | | | | | | | |
| Net sales (Note) | **$51,907,000** | $47,401,000 | $47,082,000 | $41,404,000 | $43,429,000 | $38,116,000 | $28,213,000 | $19,753,000 |
| Earnings (loss) before taxes and extraordinary items | **1,765,000** | (3,458,000) | (692,000) | (4,025,000) | 1,093,000 | 4,276,000 | 3,071,000 | 949,000 |
| Income taxes (recovery) | **815,000** | (103,000) | 78,000 | (1,244,000) | 708,000 | 1,899,000 | 1,474,000 | 487,000 |
| Earnings (loss) before extraordinary items | **950,000** | (3,355,000) | (770,000) | (2,781,000) | 385,000 | 2,377,000 | 1,597,000 | 462,000 |
| Extraordinary income (loss) – net | **929,000** | (1,079,000) | 796,000 | – | – | – | 173,000 | 178,000 |
| Net earnings (loss) | **1,879,000** | (4,434,000) | 26,000 | (2,781,000) | 385,000 | 2,377,000 | 1,770,000 | 640,000 |
| Depreciation | **407,000** | 704,000 | 798,000 | 795,000 | 618,000 | 505,000 | 438,000 | 405,000 |
| **CAPITAL EXPENDITURES** | | | | | | | | |
| (Before deducting government grants) | **245,000** | 198,000 | 480,000 | 2,322,000 | 3,414,000 | 1,405,000 | 1,458,000 | 472,000 |
| **FINANCIAL POSITION** | | | | | | | | |
| Working capital | **11,026,000** | 3,337,000 | 8,042,000 | 4,026,000 | 7,382,000 | 6,630,000 | 4,302,000 | 3,394,000 |
| Current ratio | **2.84:1** | 1.20:1 | 1.52:1 | 1.26:1 | 1.49:1 | 1.69:1 | 1.56:1 | 1.72:1 |
| Fixed assets (net) | **3,258,000** | 6,474,000 | 7,131,000 | 7,935,000 | 6,806,000 | 4,436,000 | 3,923,000 | 2,964,000 |
| Total assets | **21,436,000** | 26,338,000 | 30,747,000 | 27,765,000 | 29,153,000 | 20,621,000 | 15,891,000 | 11,064,000 |
| Long-term debt | **11,700,000** | 7,952,000 | 8,973,000 | 5,885,000 | 4,291,000 | 1,943,000 | 1,868,000 | 3,110,000 |
| Shareholders' equity | **3,738,000** | 1,859,000 | 6,293,000 | 6,149,000 | 8,930,000 | 8,537,000 | 5,997,000 | 3,065,000 |
| **PER COMMON SHARE** | | | | | | | | |
| Basic net earnings (loss) before extraordinary items | **.40** | (1.40) | (0.32) | (1.16) | 0.16 | 1.02 | 0.72 | 0.25 |
| Basic net earnings (loss) | **.78** | (1.85) | 0.01 | (1.16) | 0.16 | 1.02 | 0.79 | 0.35 |
| Shareholders' equity | **1.56** | 0.77 | 2.62 | 2.56 | 3.72 | 3.56 | 2.59 | 1.67 |
| **OTHER STATISTICS** | | | | | | | | |
| Approximate number of shareholders | **1,900** | 2,100 | 2,150 | 1,900 | 1,900 | 1,900 | 1,700 | 1,800 |
| Common shares outstanding at year end | **2,402,969** | 2,402,969 | 2,402,969 | 2,402,969 | 2,402,969 | 2,399,810 | 2,318,754 | 1,835,741 |

*Note: Excluding discontinued operations*

# Consolidated Balance Sheet

*AS AT DECEMBER 31, 1978 (with comparative figures for 1977)*

## Assets

| | 1978 | 1977 |
|---|---|---|
| **Current** | | |
| Accounts receivable | **$ 8,869,000** | $10,781,000 |
| Inventories (note 2) | **7,995,000** | 8,695,000 |
| Prepaid expenses | **160,000** | 388,000 |
| | **17,024,000** | 19,864,000 |
| Receivable on sale of Forest Products division (note 3) | **1,154,000** | – |
| **Fixed – at cost** | | |
| Land | **62,000** | 66,000 |
| Buildings and leasehold improvements | **3,565,000** | 5,162,000 |
| Machinery and equipment | **4,791,000** | 7,050,000 |
| | **8,418,000** | 12,278,000 |
| Less: accumulated depreciation | **5,160,000** | 5,804,000 |
| | **3,258,000** | 6,474,000 |
| | **$21,436,000** | $26,338,000 |

*Approved on behalf of the Board*

*Director*

*Director*

| Liabilities | 1978 | 1977 |
|---|---|---|
| Current | | |
| Bank indebtedness – current (note 4) | **$ 1,289,000** | $10,280,000 |
| Accounts payable and accrued charges | **3,952,000** | 4,419,000 |
| Sales and other taxes payable | **705,000** | 771,000 |
| Long term debt due within one year | **52,000** | 1,057,000 |
| | **5,998,000** | 16,527,000 |
| Long term debt (notes 4 and 5) | **11,700,000** | 7,952,000 |
| Shareholders' equity | | |
| Capital stock | | |
| Authorized | | |
| 3,500,000 common shares without par value | | |
| Issued | | |
| 2,402,969 shares | **7,491,000** | 7,491,000 |
| Deficit | **(3,753,000)** | (5,632,000) |
| | **3,738,000** | 1,859,000 |
| | **$21,436,000** | $26,338,000 |

*(See accompanying notes to consolidated financial statements)*

# Auditors' Report

To the Shareholders of
Sklar Manufacturing Limited

We have examined the consolidated balance sheet of Sklar Manufacturing Limited as at December 31, 1978 and the consolidated statements of earnings (loss), deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

SOBERMAN ISENBAUM & COLOMBY
Chartered Accountants

Toronto, Canada
March 9, 1979

# Consolidated Statement of Earnings (Loss)

*FOR THE YEAR ENDED DECEMBER 31, 1978 (with comparative figures for 1977)*

| | 1978 | 1977 |
|---|---|---|
| Net sales | **$51,907,000** | $47,401,000 |
| Operating costs and expenses | | |
| Cost of goods sold | **41,127,000** | 39,496,000 |
| Marketing, general and administrative | **6,989,000** | 7,508,000 |
| Depreciation | **407,000** | 446,000 |
| Interest | | |
| Long term debt | **1,274,000** | 824,000 |
| Other | **345,000** | 952,000 |
| | **50,142,000** | 49,226,000 |
| Earnings (loss) from continuing operations | **1,765,000** | (1,825,000) |
| (Loss) from discontinued operations – Forest Products division (including depreciation of $258,000) | – | (1,633,000) |
| Earnings (loss) before income taxes and extraordinary items | **1,765,000** | (3,458,000) |
| Income taxes (reduction) (note 6) | | |
| Current | **815,000** | – |
| Deferred | – | (103,000) |
| Earnings (loss) before extraordinary items | **950,000** | (3,355,000) |
| Extraordinary items (note 7) | **929,000** | (1,079,000) |
| Net earnings (loss) | **$ 1,879,000** | (4,434,000) |
| Earnings (loss) per share | | |
| Before extraordinary items | **$ .40** | $ (1.40) |
| Extraordinary items | **.38** | (.45) |
| Net earnings (loss) | **$ .78** | $ (1.85) |

*(See accompanying notes to consolidated financial statements)*

# Consolidated Statement of Deficit

*FOR THE YEAR ENDED DECEMBER 31, 1978 (with comparative figures for 1977)*

| | 1978 | 1977 |
|---|---|---|
| Deficit, beginning of year | **$(5,632,000)** | $(1,198,000) |
| Net earnings (loss) | **1,879,000** | (4,434,000) |
| Deficit, end of year | **$(3,753,000)** | $(5,632,000) |

*(See accompanying notes to consolidated financial statements)*

# Consolidated Statement of Changes in Financial Position

*FOR THE YEAR ENDED DECEMBER 31, 1978 (with comparative figures for 1977)*

| | 1978 | 1977 |
|---|---|---|
| **SOURCE OF FUNDS** | | |
| Earnings before extraordinary items | **$ 950,000** | $ – |
| Add charges (deduct credits) not involving funds | | |
| Depreciation | **407,000** | – |
| Loss on sale of fixed assets | **54,000** | – |
| Other | **(54,000)** | – |
| Funds provided by operations | **1,357,000** | – |
| Conversion of current bank indebtedness to long term debt | **3,800,000** | – |
| Sale of fixed assets of Forest Products division (net of non-current receivable of $1,100,000 due to company) | **1,900,000** | – |
| Reduction in current income taxes as a result of loss carry forward | **815,000** | – |
| Deferral of long term debt payments | – | 36,000 |
| | **7,872,000** | 36,000 |
| **APPLICATION OF FUNDS** | | |
| Loss before extraordinary items | – | 3,355,000 |
| Add credits (deduct charges) not involving funds | | |
| Depreciation | – | (704,000) |
| Deferred income taxes | – | 103,000 |
| Loss on sale of fixed assets | – | (15,000) |
| Funds applied to operations | – | 2,739,000 |
| Additions to fixed assets – net | **245,000** | 198,000 |
| Long term debt due within one year | **52,000** | 1,057,000 |
| Loss on closure of upholstery plant (net of loss on fixed assets of $136,000) | – | 300,000 |
| Provision for (adjustment to) loss on disposal of Forest Products division (less items not affecting working capital) | **(114,000)** | 447,000 |
| | **183,000** | 4,741,000 |
| Increase (decrease) in working capital | **7,689,000** | (4,705,000) |
| Working capital, beginning of year | **3,337,000** | 8,042,000 |
| Working capital, end of year | **$11,026,000** | $3,337,000 |

*(See accompanying notes to consolidated financial statements)*

# Notes to Consolidated Financial Statements

*DECEMBER 31, 1978*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly owned.

b) Translation of foreign currencies

Current assets and liabilities of a foreign subsidiary have been translated into Canadian dollars at the year end rates of exchange. Income and expenses are translated at average rates of exchange in existence during the year. The exchange adjustment arising from such translation has been reflected in earnings.

c) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost determined on a first in, first out basis.

d) Depreciation

Depreciation is provided in the accounts on the straight line method over the estimated useful lives of the fixed assets as follows:

| | |
|---|---|
| Buildings | — 20-40 years |
| Leasehold improvements | — over the unexpired terms of the leases |
| Machinery and equipment | — 10 years |

e) Pensions

Substantially all of the company's employees are covered by company pension plans as well as by compulsory government plans. The unfunded past service obligation is being amortized annually to 1989.

2. INVENTORIES

| | 1978 | 1977 |
|---|---|---|
| Raw materials | $3,872,000 | $3,973,000 |
| Work in process | 2,273,000 | 1,949,000 |
| Finished goods | 1,850,000 | 2,773,000 |
| | $7,995,000 | $8,695,000 |

3. RECEIVABLE ON SALE OF FOREST PRODUCTS DIVISION

This represents the balance due on the disposal, as of April 28, 1978, of this facility (the loss on sale was accounted for in 1977). It is secured by a debenture on the assets sold and interest is payable at prime plus 1%. For the first year interest is added to the principal amount and is payable monthly thereafter. The principal is payable $300,000 in 1981, $100,000 annually from 1982 to 1984 and the balance in 1985.

4. BANK INDEBTEDNESS

Current bank indebtedness and the bank term loans are secured by virtually all the accounts receivable and inventories and the debenture taken back on the sale of the Forest Products division as well as fixed and floating charge debentures on all other assets.

5. LONG TERM DEBT

| | 1978 | 1977 |
|---|---|---|
| Bank term loans | | |
| Reorganized during 1978 | $ – | $7,900,000 |
| 2% above the lender's prime rate | 5,500,000 | – |
| 1½% above the lender's prime rate | 6,200,000 | – |
| Loans from Ontario Development Corporation | | |
| 9% due 1979 | 52,000 | 109,000 |
| Assumed in 1978 by purchaser of Forest Products division | – | 1,000,000 |
| | 11,752,000 | 9,009,000 |
| Less amounts due within one year, included in current liabilities | 52,000 | 1,057,000 |
| | $11,700,000 | $7,952,000 |

a) Payments

Although the company has made arrangements with its banker to repay the bank term loans in instalments to 1985, the bank is entitled to demand payment at any time.

Payments required on long term debt in the next five years are as follows:

| | |
|---|---|
| 1979 | $ 52,000 |
| 1980 | – |
| 1981 | 2,800,000 |
| 1982 | 1,600,000 |
| 1983 | 1,600,000 |

b) Security

Subject to the assets pledged against bank indebtedness as referred to in note 4 the remaining long term debt is secured by fixed charges on buildings, equipment and leasehold improvements and floating charges on all other assets.

c) Restrictions

The restrictions relating to the long term debt require the company to maintain working capital of $4,000,000 and shareholders' equity of $1,500,000. There are also limitations on the purchase of fixed assets, executive compensation, lease commitments and dividend payments.

6. INCOME TAXES

At December 31, 1978, the companies have loss carry forwards for income tax purposes of approximately $4,250,000 for deduction against future years' profits. These loss carry forwards expire as follows:

| | |
|---|---|
| 1980 | $ 75,000 |
| 1981 | 300,000 |
| 1982 | 3,750,000 |
| 1983 | 125,000 |
| | $4,250,000 |

7. EXTRAORDINARY ITEMS

| | 1978 | 1977 |
|---|---|---|
| Disposal of Forest Products division | | |
| Provision for loss on sale of fixed assets and 1978 operating losses to date of sale | $ – | $ (643,000) |
| Adjustment re prior year's excess provision | 114,000 | – |
| Loss on closure of upholstery plant | – | (436,000) |
| Reduction in current income taxes as a result of loss carry forward | 815,000 | – |
| | $929,000 | $(1,079,000) |

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The total remuneration paid or payable by the company and its subsidiaries to its directors and senior officers amounted to $344,000 in 1978 and $390,000 in 1977.

9. PENSION PLANS

Pension costs, including amounts for compulsory government pension plans, were $510,000 in 1978 and $418,000 in 1977. These amounts include current service costs and payments on account of the unfunded liability in respect of past service.

Based on the last actuarial review at January 1, 1977, the unfunded liability for past service at December 31, 1978 amounted to $300,000.

10. LONG TERM LEASES

The company is committed under long term leases with various expiry dates to 1995. Minimum rentals (exclusive of taxes, insurance and maintenance costs) for the next five years under these leases are approximately $700,000 annually.

11. ANTI-INFLATION ACT

Under the federal government's Anti-inflation Program (which expired December 31, 1978) the company was subject to mandatory compliance with legislation which controlled prices, profit margins and employee compensation. Management is of the opinion that the company was in compliance with the requirements of the Anti-inflation Act.